

[REDACTED]

Gentlemen:

Your application for recognition of exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code has been considered.

The information submitted discloses that you were incorporated on [REDACTED], under the non-profit laws of the State of [REDACTED].

Your activities include promoting the common professional interests of member hospitals by providing them with the best available information on supplies and products needed by hospitals, by establishing standards and specifications which will guide member hospitals in the purchasing of supplies of the best quality, and by acting as agent for member hospitals in negotiating contracts for such supplies on behalf of member hospitals.

Section 501(c)(6) of the Internal Revenue Code provides exemption:

"Business leagues, chambers of commerce, ...not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that, for an organization to be exempt, its activities must be:

"...directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons..."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit...even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining..."

Revenue Ruling 56-65, 1956-1 C.B. 199, cites an organization whose principal activity consists of furnishing particular information and specialized individual service to its individual members engaged in a particular industry. This is accomplished through publication and other means to effect economies in the operation of their individual businesses. In this instance it was ruled that the organization had been created and is primarily operated as a service to its individual members. Your activities are like those of this organization in that you compile and disseminate to your member hospitals the best available information on supplies and products needed by these hospitals.

Revenue Ruling 66-338, 1966-2 C.B. 226, held that an organization formed to promote the interests of a particular retail trade which advises its members in the operation of their individual businesses and sells supplies and equipment to them did not qualify for exemption under 501(c)(6). Your organization differs from this in that you do not actually sell supplies and equipment to the hospitals, but act as a bargaining agent for your members by obtaining vendor bids and negotiation contracts. These activities provide the members of the organization with an economy and convenience in the conduct of their individual businesses by enabling them to secure supplies more cheaply than if they had to secure them on an individual basis. These activities therefore constitute the performance of particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole.

Internal Revenue Code 501(e) exempts certain hospital service organizations which perform administrative or similar services on a joint basis. To be treated as an organization such as this you must perform such services solely for two or more hospitals each of which is tax exempt under Internal Revenue Code 501(c)(3). As stated in Article 9 of your Articles of Incorporation any nonprofit hospital or other institution which is a member in good standing of [REDACTED] shall be eligible for election to membership in the corporation. You would therefore not meet the requirements of Internal Revenue Code 501(e) as being operated solely for tax exempt hospitals.

On the basis of the information submitted, we conclude that you are not exempt from Federal income tax under Code Section 501(c)(6). Therefore, you are required to file Federal income tax returns on Form 1120.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If we do not hear from you within 30 days, this letter will be our determination in the matter.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

[REDACTED]  
District Director

Enclosures:  
Publication 892